AlphaGenics
A NUTRIGENOMICS SCIENCE COMPANY

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Using Genetics in Products For All Consumers

Testimony of Fredric Abramson, Ph.D., S.M., Esq.
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U.S. House of Representatives
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My name is Dr. Fredric Abramson, founder and CEO of AlphaGenics, a small life science firm located in Rockville, Maryland.

I founded AlphaGenics in 1999. AlphaGenics uses genetic information to develop innovative products for consumers. Two products now under development include JeneJuice, a sports drink that is custom blended based on a person's genetic makeup, and SkyGene, a hand-held electronic device that lets people share information about their genes for personality and other non-disease social information. We have also identified a new way in which the right mix of nutrients in a person's diet could prevent influenza.

I also teach in the Masters of Biotechnology program at Johns Hopkins University. I teach courses in economics, finance and creating the biotechnology enterprise. My Ph.D. is in Human Genetics from the University of Michigan. I have a masters of Management from MIT, where I was an Alfred P. Sloan Fellow, and I hold a law degree from American University. I am admitted to the US patent bar and the bar of the United States Supreme Court, among others.

The essential point for the Small Business ownership standards as these relate to Small Business Innovative Research funds is that no change should be made to the current interpretation of the law. In other words, biotech companies that are majority owned by VC's should not be permitted to compete for SBIR funds. Any change that permits venture owned small businesses to compete for SBIR will jeopardize biotechnology innovation as we know it today. There are three central reasons why no change should be made.

The first point is that changing the rule will open the door to large companies and venture capitalists spinning off and owning small companies to obtain SBIR funds. There is no meaningful way to distinguish what kind of majority ownership is not eligible. Each of the Fortune 1000 companies can create these eligible subsidiaries to cash in on the small business funding. Worse, their vast resources means they will be able to assemble better looking teams with powerful academic credentials, which will increase their unfair advantage in obtaining NIH funds. If I were head of R&D for a Fortune 1000 company, I would spin out virtually every bio project into a subsidiary to get SBIR funding.

Second, under the present rule, VC's have a choice: take 49% ownership and compete for SBIR funds, or take 51% or more control and develop the company on your own. These two

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percentage points is what separates prudence from greed. Under the current rules, an investor has a fair choice to make. Take control of the small business and be excluded from SBIR competitions, or take a minority interest and let the small business compete with others. That's a fair choice.

Related to ownership percentages is the area of valuation. That is, what is a company worth when someone invests in it? There are at least four well recognized ways to calculate valuation. But perhaps the most powerful is the negotiating position of the parties. If VC owned firms are allowed to compete for SBIR, it will mean that VC's can demand and get a larger percentage ownership for the same investment dollars. This lowers the valuation, and in effect devalues the contribution of the founders.

Finally, there is the practical the issue of where VC's are putting their money in biotechnology. For the past few years, virtually no VC investment went into early or seed stage bio companies. Why? Because the risks are higher than investing in later stage companies. Indeed, many of the later stage investments became attractive BECAUSE they obtained SBIR funding, not the other way around. Factually, the VC's are only a small percentage of early and seed stage bio funding. Most of the early stage funding comes from angels and from corporate-strategic alliances. And most of these deals do not have the investor taking control of the small business. Again, this is consistent with the long standing policy of giving small bio companies a chance to prove their value to become attractive to investors, not the other way around.

To summarize, there is a large Olympic-sized adult swimming pool of federal dollars for every company in the U.S. This pool funds innovations in science and technology, and organizations such as Harvard, Johns Hopkins, Cal Tech, Boeing, Lockheed-Martin and IBM have been able to develop innovations with this funding. However, Congress realized that the small companies, the early stage companies have trouble getting funding in this pool. So Congress created a wading pool called the SBIR program. Small companies in this pool compete against other small companies.

The VC backed firms are teenagers who don't like swimming in the adult pool. So they want the rules changed so they can get into the wading pool with the little guys, who will be forced out.

Since it is well documented that a substantial source of America's innovation comes from these start-up small businesses, permitting venture backed companies to siphon off SBIR funds will, in my opinion, erode America's competitive technology position in the world.

Thank you, and I am happy to answer any questions.